

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Mackinaw City	County Emmet/Cheboygan
Audit Date 2/28/05	Opinion Date 3/18/05	Date Accountant Report Submitted to State: 7/28/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980)
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended)
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129 91], or P.A. 55 of 1982, as amended [MCL 38 1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year)
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129 241)
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129 95)

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations	✓		
Reports on individual federal financial assistance programs (program audits)			✓
Single Audit Reports (ASLGU)			✓

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 902 S. Huron Street, PO Box 250		City Cheboygan	State MI
		ZIP 49721	
Accountant Signature <i>Annette M. Eustice, CPA, CGFM</i>			Date 7/20/05

VILLAGE OF MACKINAW CITY
MACKINAW CITY, MICHIGAN



FINANCIAL STATEMENTS

FEBRUARY 28, 2005

VILLAGE OF MACKINAW CITY

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INDEPENDENT AUDITORS' REPORT

March 18, 2005

Village Council
Village of Mackinaw City
Mackinaw City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the ***Village of Mackinaw City***, (the "Village"), as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village, as of February 28, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Management's Discussion and Analysis

As management of the **Village of Mackinaw City**, (the "Village"), we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2005.

Financial Highlights

- The total assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$14,012,763(*net assets*). Of this amount, \$2,646,609 (*unrestricted net assets*) may be used to meet the Village's ongoing obligations to citizens and creditors.
- The Village's total net assets increased by \$304,581.
- The Village repaid \$300,895 of long-term debt during the current fiscal year. The Village issued the 2004 Capital Improvement Bonds of \$350,000 during the year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$297,640, or 18% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the Village's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., compensated absences).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges for services (*business-type activities*). The governmental activities of the Village include general government, public safety, public works, highways and streets, health and welfare, and recreation and culture. The business-type activities of the Village include water and sewer and marina.

The government-wide financial statements include not only the Village itself (known as the *primary government*), but also the Downtown Development Authority component unit, which is a legally separate entity for which the Village is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 12-14 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains 28 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, Municipal Street Fund, Ambulance Fund, 1997 Special Assessment Bonds Fund, 2000 Special Assessment Bonds Fund, and Restroom Construction Fund which are considered to be major funds. Data from the other 21 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* on pages 51-59 in this report.

The Village adopts an annual appropriated budget for its General Fund and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund and all major special revenue funds budgets.

The basic governmental funds financial statements can be found on pages 15-22 of this report.

Proprietary funds. The Village maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its water and sewer and marina operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Village's various functions. The Village uses an internal service fund to account for its equipment operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund and the Marina Fund, both of which are considered to be major funds of the Village.

The basic proprietary fund financial statements can be found on pages 23-26 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Village's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 27-28 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-48 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes. Combining and individual fund statements and schedules can be found on pages 49-60 of this report.

Government-wide Financial Analysis - Primary Government

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by \$14,012,763 at the close of fiscal 2005.

A large portion of the Village's net assets (79%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, water and sewer systems, marina and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Village's net assets (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (19%) may be used to meet the government's ongoing obligations to citizens and creditors.

**Village of Mackinaw City - Primary Government
Condensed Statement of Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Assets						
Cash and other assets	\$ 1,837,376	\$ 1,692,836	\$ 1,615,807	\$ 1,677,941	\$ 3,453,183	\$ 3,392,024
Capital assets, net of accumulated depreciation	<u>6,074,911</u>	<u>5,684,615</u>	<u>6,966,936</u>	<u>6,909,536</u>	<u>13,041,847</u>	<u>12,594,151</u>
Total assets	<u>7,912,287</u>	<u>7,377,451</u>	<u>8,582,743</u>	<u>8,587,477</u>	<u>16,495,030</u>	<u>15,964,928</u>
Liabilities						
Current and other liabilities	432,183	334,052	208,987	152,705	641,170	486,757
Long-term debt, net of current portion	<u>1,451,097</u>	<u>1,324,989</u>	<u>390,000</u>	<u>445,000</u>	<u>1,841,097</u>	<u>1,769,989</u>
Total liabilities	<u>1,883,280</u>	<u>1,659,041</u>	<u>598,987</u>	<u>597,705</u>	<u>2,482,267</u>	<u>2,256,746</u>
Net assets						
Invested in capital assets, net of related debt	4,591,149	4,304,958	6,521,936	6,409,536	11,113,085	10,714,494
Restricted	131,866	144,095	120,000	120,000	251,866	264,095
Unrestricted	<u>1,305,992</u>	<u>1,269,357</u>	<u>1,341,820</u>	<u>1,460,236</u>	<u>2,647,812</u>	<u>2,750,840</u>
Total net assets	<u>\$ 6,029,007</u>	<u>\$ 5,718,410</u>	<u>\$ 7,983,756</u>	<u>\$ 7,989,772</u>	<u>\$14,012,763</u>	<u>\$13,708,182</u>

At the end of fiscal 2005, the Village is able to report positive balances in all three categories of net assets, both for the primary government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

The Village's net assets increased by approximately \$305,000 during fiscal 2005. This increase is mainly attributable to an increase in property tax values and the Village's goal of retaining net assets for future infrastructure projects.

Village of Mackinaw City - Primary Government
Condensed Statement of Changes in Net Assets

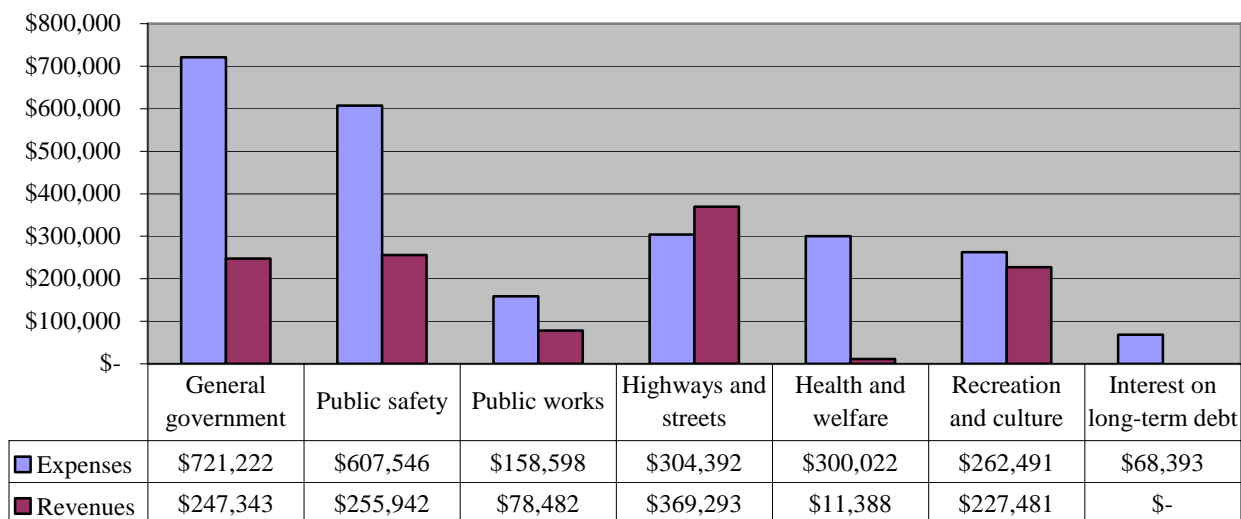
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues						
Program revenues						
Charges for services	\$ 468,791	\$ 437,043	\$ 1,198,540	\$ 1,162,165	\$ 1,667,331	\$ 1,599,208
Operating grants and contributions	517,918	686,505	33,713	26,674	551,631	713,179
Capital grants and contributions	203,220	32,268	-	-	203,220	32,268
General revenues						
Property taxes	1,484,914	1,404,449	-	-	1,484,914	1,404,449
Grants and contributions not restricted to specific programs	35,699	28,987	-	-	35,699	28,987
Unrestricted interest income	6,324	31,283	-	-	6,324	31,283
Total revenues	<u>2,716,866</u>	<u>2,620,535</u>	<u>1,232,253</u>	<u>1,188,839</u>	<u>3,949,119</u>	<u>3,809,374</u>
Expenses						
General government	721,222	607,855	-	-	721,222	607,855
Public safety	607,546	532,741	-	-	607,546	532,741
Public works	158,598	93,971	-	-	158,598	93,971
Highways and streets	304,392	315,490	-	-	304,392	315,490
Health and welfare	300,022	335,240	-	-	300,022	335,240
Recreation and culture	262,491	249,861	-	-	262,491	249,861
Interest on long-term debt	68,393	78,605	-	-	68,393	78,605
Water and sewer	-	-	725,835	741,254	725,835	741,254
Marina	-	-	496,039	523,929	496,039	523,929
Total expenses	<u>2,422,664</u>	<u>2,213,763</u>	<u>1,221,874</u>	<u>1,265,183</u>	<u>3,644,538</u>	<u>3,478,946</u>
Increase (decrease) in net assets before transfers	294,202	406,772	10,379	(76,344)	304,581	330,428
Transfers	16,395	16,394	(16,395)	(16,394)	-	-
Change in net assets	310,597	423,166	(6,016)	(92,738)	304,581	330,428
Net assets – beginning of year, as restated	5,718,410	5,295,244	7,989,772	8,082,510	13,708,182	13,377,754
Net assets – end of year	<u>\$ 6,029,007</u>	<u>\$ 5,739,657</u>	<u>\$ 7,983,756</u>	<u>\$ 7,989,772</u>	<u>\$14,012,763</u>	<u>\$13,729,429</u>

Governmental activities. Governmental activities increased the Village's net assets by \$310,597.

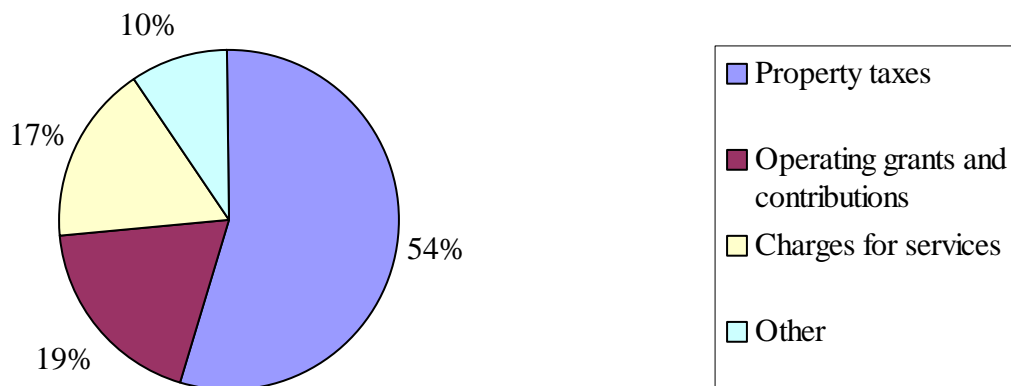
Key elements of this increase are as follows:

- Increase in property tax.
- Retention of net assets for future infrastructure projects.

Expenses and Program Revenues - Governmental Activities



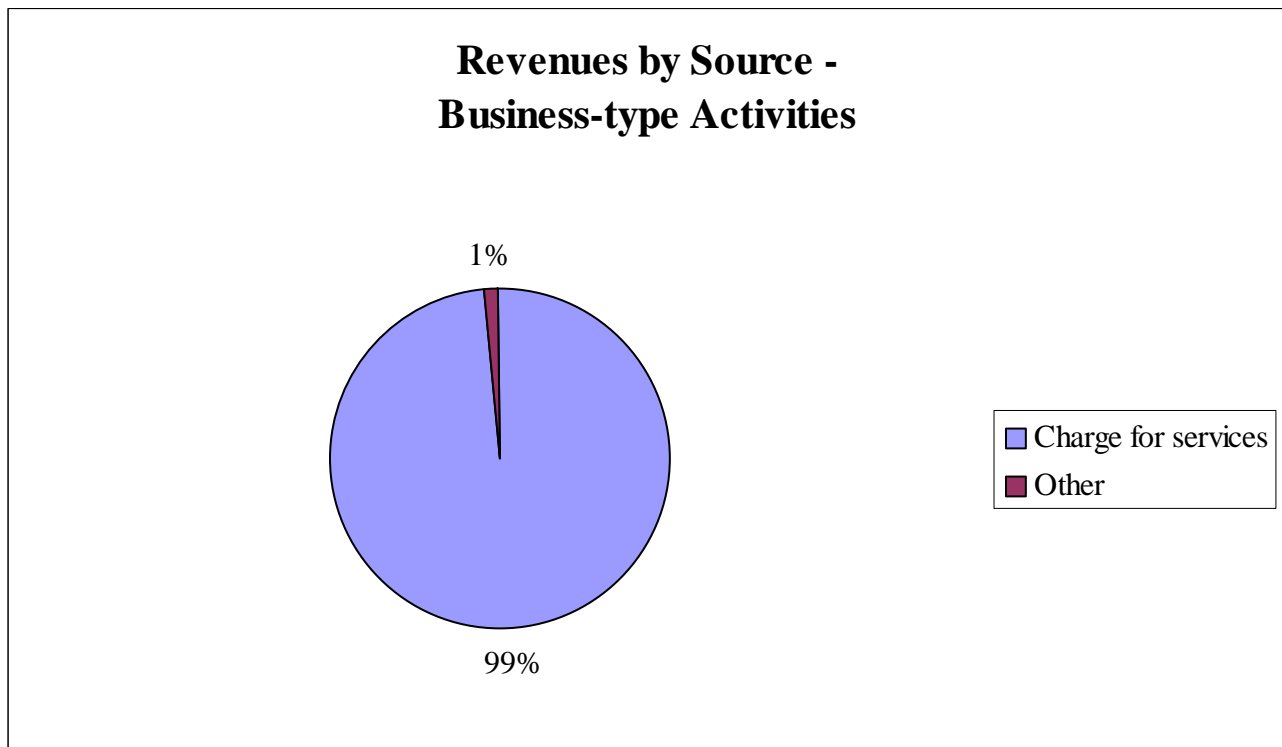
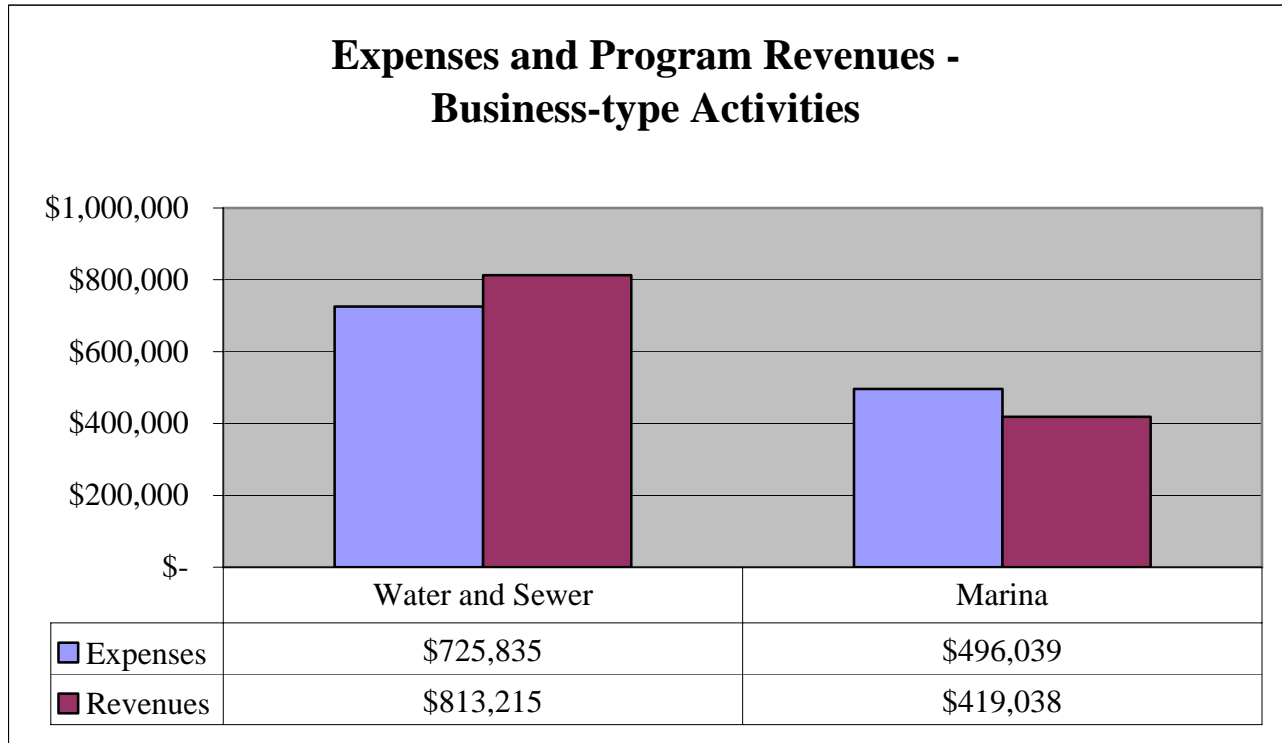
Revenues by Source - Governmental Activities



Business-type activities. Business-type activities decreased the Village's net assets by \$6,016.

Key elements of the current year decrease are:

- Increase in operating costs.



Substantially all revenues for the business-type activities resulted from charge for services.

Financial Analysis of the Government's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the fiscal year 2005, the Village's governmental funds reported combined ending fund balances of \$1,001,465, an increase of \$82,648. *Unreserved fund balance* of \$871,627 is available for spending at the Village's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed.

The fund balance of the Village's General Fund decreased by approximately \$44,600 during the current fiscal year, which was mainly attributable to capital improvements.

There were no other significant changes to the fund balance of the other major governmental funds.

Proprietary funds. The Village's *proprietary funds* provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$1,220,614. The Water and Sewer Fund had an increase in net assets for the year of \$70,985. Factors concerning the finances of this fund have already been addressed in the discussion of the Village's business-type activities.

Unrestricted net assets of the Marina Fund at the end of the year amounted to \$120,003. The Marina Fund had a decrease in net assets for the year of \$77,001. The primary factor affecting the finances of this fund is a decrease in revenue.

Budgetary Highlights

General Fund Revenues and Expenditures. Overall there are no significant differences between the original and actual budget.

Capital Asset and Debt Administration

Capital assets. The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2005, amounted to \$13,041,847 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, infrastructure, water and sewer system, marina, vehicles and equipment.

Additional information on the Village's capital assets can be found in note 3C on pages 39-41 of this report.

Major capital asset events during the current fiscal year included the following:

- Village Hall improvements.
- Sewer system improvements.
- M-198 street reconstruction.
- Conkling Heritage Park improvements.

Long-term debt. At February 28, 2005, the Village had total debt outstanding of \$2,177,991. Of this amount, \$1,732,991 is comprised of debt backed by the full faith and credit of the Village. The remainder of the Village's bonded debt represents bonds secured solely by specified revenue sources.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total state equalized valuation. The current debt limitation for the Village is approximately \$10.5 million, which is significantly in excess of the Village's outstanding general obligation debt.

Additional information on the Village's long-term debt can be found in Note 3F on pages 42-45 of this report.

Economic Factors and Fiscal 2005-2006 Budgets and Rates

The following factors were considered in preparing the Village's budget for the 2005-06 fiscal year:

- Economic factors.
- Estimated revenues.
- Planned capital improvements.
- Operating expenses.

Requests for Information

This financial report is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village Manager, PO Box 580, Mackinaw City, Michigan 49701.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE OF MACKINAW CITY

STATEMENT OF NET ASSETS

FEBRUARY 28, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 751,023	\$ 710,769	\$ 1,461,792	\$ 4,904
Investments	431,597	485,483	917,080	3,351
Receivables, net	749,247	174,583	923,830	3,081
Internal balances	(117,491)	117,491	-	-
Inventories	-	6,278	6,278	-
Restricted assets	23,000	121,203	144,203	-
Capital assets not being depreciated	856,079	74,087	930,166	-
Capital assets being depreciated, net	5,218,832	6,892,849	12,111,681	-
Total assets	7,912,287	8,582,743	16,495,030	11,336
Liabilities				
Accounts payable and accrued expenses	150,289	78,742	229,031	-
Deferred revenue	-	75,245	75,245	-
Long-term liabilities				
Due within one year	281,894	55,000	336,894	-
Due in more than one year	1,451,097	390,000	1,841,097	-
Total liabilities	1,883,280	598,987	2,482,267	-
Net assets				
Invested in capital assets, net of related debt	4,591,149	6,521,936	11,113,085	-
Restricted for debt service	131,866	121,203	253,069	-
Unrestricted	1,305,992	1,340,617	2,646,609	11,336
Total net assets	\$ 6,029,007	\$ 7,983,756	\$ 14,012,763	\$ 11,336

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 28, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
General government	\$ 721,222	\$ 161,655	\$ 85,688	\$ -	\$ (473,879)
Public safety	607,546	181,256	73,106	1,580	(351,604)
Public works	158,598	55,067	23,415	-	(80,116)
Highways and streets	304,392	-	167,653	201,640	64,901
Health and welfare	300,022	9,015	2,373	-	(288,634)
Recreation and culture	262,491	61,798	165,683	-	(35,010)
Interest on long-term debt	68,393	-	-	-	(68,393)
Total governmental activities	2,422,664	468,791	517,918	203,220	(1,232,735)
Business-type activities					
Water and sewer	725,835	781,729	31,486	-	87,380
Marina	496,039	416,811	2,227	-	(77,001)
Total business-type activities	1,221,874	1,198,540	33,713	-	10,379
Total primary government	\$ 3,644,538	\$ 1,667,331	\$ 551,631	\$ 203,220	\$ (1,222,356)
Discretely presented component unit					
Downtown development	\$ 6,978	\$ -	\$ -	\$ -	\$ (6,978)

Continued...

VILLAGE OF MACKINAW CITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 28, 2005

Functions/Programs	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net expense	\$ (1,232,735)	\$ 10,379	\$ (1,222,356)	\$ (6,978)
General revenues				
Property taxes	1,484,914	-	1,484,914	34,496
Grants and contributions not restricted to specific programs	35,699	-	35,699	-
Unrestricted interest income	6,324	-	6,324	165
Transfers - internal activities	16,395	(16,395)	-	-
Total general revenues and transfers	1,543,332	(16,395)	1,526,937	34,661
Change in net assets	310,597	(6,016)	304,581	27,683
Net assets (deficiency), beginning of year, as restated (Note 3G)	5,739,657	7,989,772	13,729,429	(16,347)
Prior period adjustment	(21,247)	-	(21,247)	-
Net assets, beginning of year, as restated	5,718,410	7,989,772	13,708,182	(16,347)
Net assets, end of year	\$ 6,029,007	\$ 7,983,756	\$ 14,012,763	\$ 11,336

Concluded

The accompanying notes are an integral part of these basic financial statements.

FUND FINANCIAL STATEMENTS

VILLAGE OF MACKINAW CITY

BALANCE SHEET GOVERNMENTAL FUNDS

FEBRUARY 28, 2005

	General	Major Street	Municipal Street	Ambulance	1997 Special Assessment Bonds
ASSETS					
Cash and cash equivalents	\$ 248,846	\$ 45,389	\$ 15,225	\$ 28,435	\$ 46,931
Investments	161,841	31,016	10,404	19,395	-
Accounts receivable	1,893	-	-	32,582	-
Taxes receivable	106,700	-	38,144	-	-
Special assessment receivable	-	-	242,093	-	83,496
Due from other funds	100	-	-	-	-
Due from other governmental units	10,770	32,798	-	-	-
Restricted assets	-	-	-	-	-
Total assets	\$ 530,150	\$ 109,203	\$ 305,866	\$ 80,412	\$ 130,427
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	56,170	1,579	3,155	1,958	-
Accrued expenses	48,613	1,788	-	11,969	-
Deferred revenue	10,236	-	240,937	-	81,986
Advance from other funds	117,491	-	-	-	-
Total liabilities	232,510	3,367	244,092	13,927	81,986
Fund balances					
Reserved for					
Recreation facilities	-	-	-	-	-
Debt service	-	-	-	-	48,441
Unreserved					
Designated - Special Revenue Funds					
Accrued sick and vacation	-	-	-	-	-
Undesignated	297,640	105,836	61,774	66,485	-
Undesignated, reported in nonmajor					
Special revenue funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Total fund balances	297,640	105,836	61,774	66,485	48,441
Total liabilities and fund balances	\$ 530,150	\$ 109,203	\$ 305,866	\$ 80,412	\$ 130,427

The accompanying notes are an integral part of these basic financial statements.

2000 Special Assessment Bonds	Restroom Construction	Nonmajor Governmental Funds	Total Governmental Funds
\$ 24,270	\$ 73,512	\$ 155,793	\$ 638,401
-	50,232	81,752	354,640
-	-	17,000	51,475
-	-	939	145,783
117,375	-	61,533	504,497
-	-	-	100
-	-	3,824	47,392
-	-	23,000	23,000
\$ 141,645	\$ 123,744	\$ 343,841	\$ 1,765,288

-	-	\$ 6,729	\$ 69,591
-	-	2,304	64,674
117,375	-	61,533	512,067
-	-	-	117,491
117,375	-	70,566	763,823

-	-	7,972	7,972
24,270	-	59,155	131,866
-	-	93,102	93,102
-	123,744	-	655,479
-	-	112,149	112,149
-	-	897	897
24,270	123,744	273,275	1,001,465
\$ 141,645	\$ 123,744	\$ 343,841	\$ 1,765,288

Continued...

VILLAGE OF MACKINAW CITY

BALANCE SHEET GOVERNMENTAL FUNDS

FEBRUARY 28, 2005

Reconciliation of fund balances on the balance sheet for governmental activities to the statement of net assets

Fund balances - total governmental funds \$ 1,001,465

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.

Add: capital assets	7,541,813
Subtract: accumulated depreciation	(1,759,267)

The focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred special assessment revenues and other deferred revenues	512,067
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Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in an internal service fund	474,890
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Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds and notes payable	(1,483,762)
Subtract: compensated absences	(249,229)
Subtract: accrued interest on long-term liabilities	(8,970)

Net assets of governmental activities	<u>\$ 6,029,007</u>
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Concluded

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2005

	General	Major Street	Municipal Street	Ambulance	1997 Special Assessment Bonds
Revenues					
Property taxes	\$ 1,086,976	\$ -	\$ 388,407	\$ -	\$ -
Federal revenue	139,789	-	-	-	-
State revenue	99,935	294,663	5,296	-	-
Special assessments	-	-	12,027	-	41,105
Licenses and permits	15,361	-	-	-	-
Contributions	22,807	-	-	29,048	-
Charges for services	9,923	-	-	180,221	-
Fines and forfeits	4,310	-	-	-	-
Interest	4,497	57	10,953	746	7,768
Rents and royalties	118,576	-	-	-	-
Local contribution	-	-	-	-	-
Miscellaneous	19,429	-	-	1,297	-
Total revenues	1,521,603	294,720	416,683	211,312	48,873
Expenditures					
Current					
Legislative	29,264	-	-	-	-
General government	678,782	-	-	-	-
Public safety	517,339	-	-	-	-
Public works	2,211	-	-	-	-
Highways and streets	-	456,938	40,269	-	-
Health and welfare	-	-	-	255,443	-
Recreation and culture	144,439	-	-	-	-
Other functions	8,512	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service					
Principal	-	-	-	-	45,000
Interest and paying agent fees	6,442	-	-	-	6,433
Total expenditures	1,386,989	456,938	40,269	255,443	51,433
Revenues over (under) expenditures	134,614	(162,218)	376,414	(44,131)	(2,560)
Other financial sources (uses)					
Bond proceeds	-	-	-	-	-
Transfers in	62,949	234,850	-	40,000	-
Transfers out	(242,194)	-	(330,026)	-	-
Total other financing sources (uses)	(179,245)	234,850	(330,026)	40,000	-
Net change in fund balances	(44,631)	72,632	46,388	(4,131)	(2,560)
Fund balances, beginning of year	363,518	33,204	15,386	70,616	51,001
Prior period adjustment	(21,247)	-	-	-	-
Fund balances, beginning of year, as restated	342,271	33,204	15,386	70,616	51,001
Fund balances, end of year	\$ 297,640	\$ 105,836	\$ 61,774	\$ 66,485	\$ 48,441

2000 Special Assessment Bonds	Restroom Construction	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 9,531	\$ 1,484,914
-	-	-	139,789
-	-	58,324	458,218
23,475	-	13,704	90,311
-	-	-	15,361
-	-	50,003	101,858
-	-	56,506	246,650
-	-	-	4,310
9,440	1,578	8,539	43,578
-	-	-	118,576
-	-	3,045	3,045
-	-	22,545	43,271
32,915	1,578	222,197	2,749,881
-	-	-	29,264
-	-	36,631	715,413
-	-	-	517,339
-	-	-	2,211
-	-	129,578	626,785
-	-	-	255,443
-	-	109,491	253,930
-	-	8,931	17,443
-	79,834	73,825	153,659
30,000	-	170,895	245,895
8,571	-	49,005	70,451
38,571	79,834	578,356	2,887,833
(5,656)	(78,256)	(356,159)	(137,952)
-	350,000	-	350,000
-	-	319,770	657,569
-	(148,000)	(66,749)	(786,969)
-	202,000	253,021	220,600
(5,656)	123,744	(103,138)	82,648
29,926	-	376,413	940,064
-	-	-	(21,247)
29,926	-	376,413	918,817
\$ 24,270	\$ 123,744	\$ 273,275	\$ 1,001,465

Continued...

VILLAGE OF MACKINAW CITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2005

**Reconciliation of statement of revenues, expenditures and changes in fund balances
of governmental funds to statement of activities**

Net change in fund balances - total governmental funds	\$ 82,648
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Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay capitalized during current year	602,181
Subtract: depreciation expense	(301,650)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add: current year special assessments and other	512,067
Subtract: prior year special assessments and other	(547,311)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Subtract: bond proceeds	(350,000)
Add: principal payments on long-term liabilities	245,895

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: prior year accrued interest on bonds	11,028
Subtract: current year accrued interest on bonds	(8,970)
Subtract: increase in the accrual of compensated absences	(60,575)

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

Add: change in net assets from governmental activities accounted for in internal service fund	125,284
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Change in net assets of governmental activities	<u>\$ 310,597</u>
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Concluded

VILLAGE OF MACKINAW CITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

FOR THE YEAR ENDED FEBRUARY 28, 2005

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Taxes	\$ 1,179,400	\$ 1,079,400	\$ 1,086,976	\$ 7,576
Federal revenue	126,000	126,000	139,789	13,789
State revenue	107,900	107,900	99,935	(7,965)
Licenses and permits	9,500	9,500	15,361	5,861
Contributions	13,000	13,000	22,807	9,807
Charges for services	11,835	11,835	9,923	(1,912)
Fines and forfeits	1,500	1,500	4,310	2,810
Interest	32,200	32,200	4,497	(27,703)
Rentals	116,000	116,000	118,576	2,576
Miscellaneous	2,000	2,000	19,429	17,429
Total revenues	1,599,335	1,499,335	1,521,603	22,268
Expenditures				
Legislative	35,650	35,650	29,264	6,386
General government	785,799	794,199	678,782	115,417
Public safety	463,426	499,426	517,339	(17,913)
Public works	270	270	2,211	(1,941)
Recreation and culture	191,490	191,490	144,439	47,051
Other functions	9,500	9,500	8,512	988
Debt service	-	-	6,442	(6,442)
Total expenditures	1,486,135	1,530,535	1,386,989	143,546
Revenues over (under) expenditures	113,200	(31,200)	134,614	165,814
Other financing sources (uses)				
Bond proceeds	210,000	210,000	-	(210,000)
Transfers in	46,000	46,000	62,949	16,949
Transfers out	(305,400)	(305,400)	(242,194)	63,206
Total other financing sources (uses)	(49,400)	(49,400)	(179,245)	(129,845)
Net change in fund balance	63,800	(80,600)	(44,631)	35,969
Fund balance, beginning of year	363,518	363,518	363,518	-
Prior period adjustment	-	-	(21,247)	(21,247)
Fund balance, beginning of year, as restated	363,518	363,518	342,271	(21,247)
Fund balance, end of year	\$ 427,318	\$ 282,918	\$ 297,640	\$ 14,722

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR STREET**

FOR THE YEAR ENDED FEBRUARY 28, 2005

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
State revenue				
State trunkline maintenance	\$ -	\$ -	\$ 16,793	\$ 16,793
Gas and weight tax distribution	68,000	68,000	81,526	13,526
Other	380,000	380,000	196,344	(183,656)
Interest	-	-	57	57
Total revenues	448,000	448,000	294,720	(153,280)
Expenditures				
Highways and streets				
Administration	27,550	27,550	21,334	6,216
Routine maintenance	54,600	54,600	51,953	2,647
Winter maintenance	41,200	41,200	51,962	(10,762)
Traffic services	11,500	11,500	9,296	2,204
Construction	548,000	548,000	322,393	225,607
Total expenditures	682,850	682,850	456,938	225,912
Revenues under expenditures	(234,850)	(234,850)	(162,218)	72,632
Other financing sources				
Transfers in	234,850	234,850	234,850	-
Net change in fund balance	-	-	72,632	72,632
Fund balance, beginning of year	33,204	33,204	33,204	-
Fund balance, end of year	\$ 33,204	\$ 33,204	\$ 105,836	\$ 72,632

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MUNICIPAL STREET

FOR THE YEAR ENDED FEBRUARY 28, 2005

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Property taxes	\$ 414,000	\$ 414,000	\$ 388,407	\$ (25,593)
State revenue	5,000	5,000	5,296	296
Special assessments	-	-	12,027	12,027
Interest	100	100	10,953	10,853
Total revenues	419,100	419,100	416,683	(2,417)
Expenditures				
Highways and streets				
Routine maintenance	42,000	42,000	40,269	1,731
Revenues over expenditures	377,100	377,100	376,414	(686)
Other financing sources (uses)				
Transfers out	(377,100)	(377,100)	(330,026)	47,074
Net change in fund balance	-	-	46,388	46,388
Fund balance, beginning of year	15,386	15,386	15,386	-
Fund balance, end of year	\$ 15,386	\$ 15,386	\$ 61,774	\$ 46,388

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
AMBULANCE
FOR THE YEAR ENDED FEBRUARY 28, 2005

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Contributions from other governmental units	\$ 29,365	\$ 29,365	\$ 29,048	\$ (317)
Charges for services	185,000	185,000	180,221	(4,779)
Interest	200	200	746	546
Miscellaneous	15,355	15,355	1,297	(14,058)
Total revenues	229,920	229,920	211,312	(18,608)
Expenditures				
Health and welfare	261,920	261,920	255,443	6,477
Capital outlay	3,000	3,000	-	3,000
Total expenditures	264,920	264,920	255,443	9,477
Revenues under expenditures	(35,000)	(35,000)	(44,131)	(9,131)
Other financing sources (uses)				
Transfers in	40,000	40,000	40,000	-
Transfers out	(5,000)	(5,000)	-	5,000
Total other financing sources	35,000	35,000	40,000	5,000
Net change in fund balance	-	-	(4,131)	(4,131)
Fund balance, beginning of year	70,616	70,616	70,616	-
Fund balance, end of year	\$ 70,616	\$ 70,616	\$ 66,485	\$ (4,131)

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

FEBRUARY 28, 2005

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer Fund	Marina Fund	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 614,615	\$ 96,154	\$ 710,769	\$ 112,622
Investments	419,980	65,503	485,483	76,957
Accounts receivable	144,228	30,355	174,583	-
Inventory	-	6,278	6,278	-
Total current assets	1,178,823	198,290	1,377,113	189,579
Property and equipment				
Land	52,587	21,500	74,087	-
Land improvements	-	87,964	87,964	-
Buildings	71,791	-	71,791	-
Water and sewer system	7,726,633	-	7,726,633	-
Machinery and equipment	319,257	83,917	403,174	787,248
Marina	-	1,626,829	1,626,829	-
Less accumulated depreciation	(2,119,092)	(904,450)	(3,023,542)	(494,883)
Net property and equipment	6,051,176	915,760	6,966,936	292,365
Other assets				
Restricted assets	121,203	-	121,203	-
Advance to other fund	117,491	-	117,491	-
Total other assets	238,694	-	238,694	-
Total assets	7,468,693	1,114,050	8,582,743	481,944
Liabilities				
Current liabilities				
Accounts payable	71,205	1,816	73,021	6,200
Accrued expenses	4,495	1,226	5,721	854
Deferred revenue	-	75,245	75,245	-
Bonds payable	55,000	-	55,000	-
Total current liabilities	130,700	78,287	208,987	7,054
Long-term debt				
Bonds payable (net of current portion)	390,000	-	390,000	-
Total liabilities	520,700	78,287	598,987	7,054
Net assets				
Invested in capital assets, net of related debt	5,606,176	915,760	6,521,936	292,365
Restricted	121,203	-	121,203	-
Unrestricted	1,220,614	120,003	1,340,617	182,525
Total net assets	\$ 6,947,993	\$ 1,035,763	\$ 7,983,756	\$ 474,890

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2005

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
Operating revenues				
Sales and charges for services	\$ -	\$ 416,811	\$ 416,811	\$ 177,186
Sales and charges for services pledged as security for revenue bonds	781,729	-	781,729	-
Total operating revenues	781,729	416,811	1,198,540	177,186
Operating expenses				
Salaries and wages	175,320	127,569	302,889	36,521
Fringe benefits	90,258	47,861	138,119	17,624
Supplies	82,971	19,412	102,383	15,668
Gasoline and oil	4,388	151,055	155,443	19,446
Repairs and maintenance	17,472	7,568	25,040	26,823
Contracted services	52,370	15,722	68,092	5,826
Communications	3,364	2,559	5,923	1,571
Conferences and workshops	320	31	351	-
Travel	515	137	652	45
Insurance	12,693	11,142	23,835	11,319
Utilities	85,817	25,294	111,111	6,672
Equipment rental	12,695	1,158	13,853	-
Depreciation	158,473	60,406	218,879	58,236
Miscellaneous	3,469	26,125	29,594	175
Total operating expenses	700,125	496,039	1,196,164	199,926
Operating income (loss)	81,604	(79,228)	2,376	(22,740)
Non-operating revenues (expenses)				
Interest earnings	19,980	2,227	22,207	2,229
Loss on disposal of capital assets	(1,305)	-	(1,305)	-
State revenue	11,506	-	11,506	-
Interest and fiscal charges	(24,405)	-	(24,405)	-
Total non-operating revenues (expenses)	5,776	2,227	8,003	2,229
Income (loss) before transfers	87,380	(77,001)	10,379	(20,511)
Transfers in	-	-	-	148,000
Transfers out	(16,395)	-	(16,395)	(2,205)
Change in net assets	70,985	(77,001)	(6,016)	125,284
Net assets, beginning of year	6,877,008	1,112,764	7,989,772	349,606
Net assets, end of year	\$ 6,947,993	\$ 1,035,763	\$ 7,983,756	\$ 474,890

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED FEBRUARY 28, 2005

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
Cash flows from operating activities				
Cash collected from customers	\$ 775,204	\$ 412,681	\$ 1,187,885	\$ -
Cash collected from other funds	-	-	-	177,186
Cash paid for employee wages and benefits	(265,578)	(175,430)	(441,008)	(54,145)
Cash paid for interfund services	(12,695)	(1,158)	(13,853)	-
Cash paid for other operating and administrative expenses	(216,191)	(245,488)	(461,679)	(83,072)
Net cash provided by (used in) operating activities	280,740	(9,395)	271,345	39,969
Cash flows from capital and related financing activities				
Interest payments	(24,405)	-	(24,405)	-
Principal payments	(55,000)	-	(55,000)	-
Purchase of property and equipment	(248,656)	(28,926)	(277,582)	(148,000)
Transfer in	-	-	-	148,000
Transfer out	(16,395)	-	(16,395)	(2,205)
Net cash used in capital and related financing activities	(344,456)	(28,926)	(373,382)	(2,205)
Cash flows from non-capital and related financing activities				
Loss on disposal of assets	(1,305)	-	(1,305)	-
State revenue	11,506	-	11,506	-
Net cash provided by non-capital and related financing activities	10,201	-	10,201	-
Cash flows from investing activities				
Repayment of advance to other funds	43,558	-	43,558	-
Interest earnings	19,980	2,227	22,207	2,229
Sale (purchase) of investments	19,909	19,262	39,171	(12,743)
Net cash provided by (used in) investing activities	83,447	21,489	104,936	(10,514)
Net increase (decrease) in cash and cash equivalents	29,932	(16,832)	13,100	27,250
Cash and cash equivalents, beginning of year	584,683	112,986	697,669	85,372
Cash and cash equivalents, end of year	\$ 614,615	\$ 96,154	\$ 710,769	\$ 112,622

Continued...

VILLAGE OF MACKINAW CITY

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED FEBRUARY 28, 2005

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Cash flows from operating activities				
Operating income (loss)	\$ 81,604	\$ (79,228)	\$ 2,376	\$ (22,740)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	158,473	60,406	218,879	58,236
Changes in operating assets and liabilities which provided (used) cash				
Due from other funds	-	-	-	1,985
Accounts receivable	(6,525)	(4,130)	(10,655)	-
Inventory	-	4,463	4,463	-
Accounts payable	47,482	691	48,173	3,110
Accrued expenses	(294)	186	(108)	(622)
Deferred revenue	-	8,217	8,217	-
Net cash provided by (used in) operating activities	\$ 280,740	\$ (9,395)	\$ 271,345	\$ 39,969

Concluded

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

FEBRUARY 28, 2005

	<u>Pension Trust Fund Employees' Retirement System</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ -	\$ 4,801
Investments	<u>1,009,864</u>	<u>-</u>
Total assets	1,009,864	<u>\$ 4,801</u>
Liabilities		
Accounts payable	<u>-</u>	<u>\$ 4,801</u>
Net assets		
Reserved for employees' retirement system	<u>\$ 1,009,864</u>	

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUND

FOR THE YEAR ENDED FEBRUARY 28, 2005

Additions	
Contributions	\$ 93,236
Investment income	<u>120,533</u>
Toal additions	213,769
 Deductions	
Benefits	<u>4,816</u>
 Change in net assets	 208,953
 Net assets, beginning of year	 <u>800,911</u>
 Net assets, end of year	 <u>\$ 1,009,864</u>

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the ***Village of Mackinaw City***, (the “Village”) and its component unit. The component unit discussed below is included in the Village’s reporting entity because of the significance of its operational or financial relationship with the Village.

Discretely Presented Component Unit. The amounts reported as the “discretely presented component unit” in the basic financial statements include the financial data of the Village’s Downtown Development Authority (“DDA”) to emphasize that it is legally separate from the Village. The members of the governing Board of the Downtown Development Authority are appointed by the Village Council. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Downtown Development Authority. Separate financial statements of the DDA have not been prepared.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

Fund Financial Statements. The fund financial statements provide information about the Village's funds, including its fiduciary funds. Separate statements for each fund category – *governmental, proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Village reports the following major governmental funds:

The *General Fund* is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes which are restricted by state statute for major street and highway purposes.

The *Municipal Street Fund* accounts for the use of a tax levy which is used to supplement the Major and Local Street Funds.

The *Ambulance Fund* accounts for the operations of the Village-operated ambulance service.

The *1997 Special Assessment Bonds Fund* accounts for the 1997 special assessment revenues and the payments on the bonds issued for street improvements.

The *2000 Special Assessment Bonds Fund* accounts for the 2000 special assessment revenues and the payments on the bonds issued for street improvements.

The *Restroom Construction Fund* accounts for the proceeds of the 2004 Capital Improvement Bonds and the construction of public restrooms and the remodeling of Village Hall.

The Village reports the following major enterprise funds:

The *Water and Sewer Fund* accounts for the activities of the Village's water distribution, water treatment, sewage disposal and sewage treatment systems.

The *Marina Fund* accounts for the operations of the Village-owned marina.

Additionally, the Village reports the following fund types:

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

The *Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Funds* account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

The *Internal Service Funds* accounts for operations that provide machinery and equipment to other departments of the Village on a cost-reimbursement basis.

The *Pension Trust Fund* accounts for the activities of the Village's employee retirement system, which accumulates resources for retirement benefit payments to qualified employees.

The *Agency Funds* account for assets held for other governments and employees in an agency capacity.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation.

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the Village gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

Governmental Fund Financial Statements. Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when both measurable and available. The Village considers all revenues reported in the governmental funds to be available if they are collected within sixty (60) days of the end of the current fiscal period. Property taxes, state shared revenue and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Village.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

All governmental and business-type activities and enterprise funds of the Village follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village's enterprise funds, are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Village maintains an investment pool for all Village funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "Cash and cash equivalents" and "Investments." The debt service and trust and agency funds cash resources are invested separately as required by law.

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Village to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The Village's investments during the year consisted of certificate of deposits with original maturities of more than three months and pension trust investments held with a life insurance company.

2. Receivables and Payables

All receivables are reported at their gross value, except the Ambulance Fund accounts receivable which is shown net of an estimated allowance for uncollectible accounts of \$20,000.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

3. *Property Taxes*

The Village's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 14; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Cheboygan and Emmet Counties. Assessed values, as established annually by the government and subject to acceptance by the counties, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the Village for the 2004 levy was \$96,945,082. The Village's general operating tax rate for fiscal 2004-05 was 10.6718 mills with an additional 4.0611 mills for streets and 0.1000 mills for the cemetery.

Property taxes for the DDA are derived from a 1.8142 mill tax levied on the properties located within the DDA district under the authority of Public Act 197 of 1975.

Property taxes are recognized in the fiscal year in which they are levied.

4. *Inventories*

All inventories are valued at cost using the first-in/first-out (FIFO) method of accounting.

5. *Restricted Assets*

Certain resources are set aside for repayment of the Village's Water and Sewer and Recreation revenue bonds and are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants.

6. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, water and wastewater system and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Village defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-15
Buildings and building improvements	15-40
Water and wastewater system infrastructure	20-75
Machinery and equipment	5-25
Marina	7-40
Infrastructure	20

7. *Compensated Absences*

It is the Village's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

8. *Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

9. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and special revenue funds. All annual appropriations lapse at fiscal year end.

On or before the third Thursday in February of each year, the Village Manager must present the proposed budget to the Village Council for review. The Council holds public hearings and a final budget must be prepared and adopted by resolution no later than the first day in March.

The budget document presents information by fund, function, department and line item. The legal level of budgetary control adopted by the Village Council is the function level which is the level at which expenditures may not exceed appropriations. The Village Manager may make transfers of appropriations within a function. Transfers of appropriations between functions require the approval of the Village Council.

B. Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978 as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on the functional basis. The approved budgets of the Village for the budgetary funds were adopted at the function level for the General Fund and each special revenue fund.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of February 28, 2005:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 1,461,792	\$ 4,904	\$ 1,466,696
Investments	917,080	3,351	920,431
Restricted assets	<u>144,203</u>	<u>-</u>	<u>144,203</u>
Total Statement of Net Assets	<u>\$ 2,523,075</u>	<u>\$ 8,255</u>	2,531,330
Statement of Fiduciary Net Assets			
Cash and cash equivalents			4,801
Investments			<u>1,009,864</u>
Total			<u>\$ 3,545,995</u>

The composition of deposits and investments for footnote disclosure is as follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 2,536,131
Investments in securities, mutual funds and similar vehicles	<u>1,009,864</u>
Total	<u>\$ 3,545,995</u>

At year end, the carrying amount of deposits was \$2,536,131. The bank balance was \$2,535,586. Of the bank balance, \$500,000 was covered by Federal Depository Insurance Corporation (FDIC). The remaining balance of \$2,035,586 was uninsured and uncollateralized.

The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits Village funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

The Village's Pension Trust Fund holds securities of \$1,009,864 in a trust fund of a life insurance company, which are not in the Village's name. Therefore, these investments are categorized as risk category 3. The carrying amount of the Pension Trust Fund investment is stated at fair value.

The GASB Statement No. 3 risk categories are as follows:

1. Insured or registered, or securities held by the Village or the Village's agent in the Village's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or its agent in the Village's name.
3. Uninsured and unregistered, with securities held by the counterparty or the counterparty's trust department or agent, but not in the Village's name.

B. Receivables

The composition of receivables is as follows as of February 28, 2005:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Accounts receivable	\$ 71,575	\$ 174,583	\$ -
Taxes receivable	145,783	-	3,801
Special assessment receivable, due in one year	90,000	-	-
Special assessment receivable, due in more than one year	414,497	-	-
Due from other governmental units	<u>47,392</u>	<u>-</u>	<u>-</u>
Total receivables	769,247	174,583	3,801
Less: allowance for doubtful accounts	<u>20,000</u>	<u>-</u>	<u>-</u>
Total receivables, net	<u>\$ 749,247</u>	<u>\$ 174,583</u>	<u>\$ 3,801</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, *deferred revenue* reported in the governmental funds was \$512,067.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

C. Capital assets

Capital assets activity was as follows for the year ended February 28, 2005:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated – land	\$ 856,079	\$ -	\$ -	\$ 856,079
Capital assets being depreciated				
Buildings	1,764,664	144,385	-	1,909,049
Land improvements	675,183	120,346	-	795,529
Equipment	1,944,557	164,937	(64,425)	2,045,069
Infrastructure	<u>2,402,822</u>	<u>320,513</u>	<u>-</u>	<u>2,723,335</u>
Total capital assets being depreciated	<u>6,787,226</u>	<u>750,181</u>	<u>(64,425)</u>	<u>7,472,982</u>
Less accumulated depreciation on				
Buildings	(280,720)	(49,590)	-	(330,310)
Land improvements	(369,376)	(48,595)	-	(417,971)
Equipment	(952,437)	(142,183)	64,425	(1,030,195)
Infrastructure	<u>(356,157)</u>	<u>(119,517)</u>	<u>-</u>	<u>(475,674)</u>
Total accumulated depreciation	<u>(1,958,690)</u>	<u>(359,885)</u>	<u>64,425</u>	<u>(2,254,150)</u>
Total capital assets being depreciated, net	<u>4,828,536</u>	<u>390,296</u>	<u>-</u>	<u>5,218,832</u>
Governmental activities capital assets, net	<u>\$5,684,615</u>	<u>\$ 390,296</u>	<u>\$ -</u>	<u>\$6,074,911</u>
Business-type activities				
Capital assets not being depreciated – land	\$ 74,087	\$ -	\$ -	\$ 74,087

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Decreases</u>	<u>Balance</u>
Capital assets being depreciated				
Buildings	\$ 71,791	\$ -	\$ -	\$ 71,791
Improvements other than buildings	7,585,875	231,314	(2,592)	7,814,597
Machinery and equipment	385,832	17,342	-	403,174
Marina	<u>1,597,903</u>	<u>28,926</u>	<u>-</u>	<u>1,626,829</u>
Total capital assets being depreciated	<u>9,641,401</u>	<u>277,582</u>	<u>(2,592)</u>	<u>9,916,391</u>
Less accumulated depreciation for				
Buildings	(17,922)	(2,604)	-	(20,526)
Improvements other than buildings	(1,923,977)	(125,851)	1,287	(2,048,541)
Machinery and equipment	(166,728)	(45,319)	-	(212,047)
Marina	<u>(697,323)</u>	<u>(45,105)</u>	<u>-</u>	<u>(742,428)</u>
Total accumulated depreciation	<u>(2,805,950)</u>	<u>(218,879)</u>	<u>1,287</u>	<u>(3,023,542)</u>
Total capital assets being depreciated, net	<u>6,835,451</u>	<u>58,703</u>	<u>(1,305)</u>	<u>6,892,849</u>
Business-type activities				
capital assets, net	<u>\$6,909,538</u>	<u>\$ 58,703</u>	<u>\$ (1,305)</u>	<u>\$6,966,936</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

General government	\$ 20,350
Public safety	53,139
Public works	2,783
Highways and streets	122,212
Health and welfare	7,948
Recreation and culture	95,217
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>58,236</u>

Total depreciation expense – governmental activities **\$ 359,885**

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

Business-type activities

Water and Sewer	\$ 158,473
Marina	<u>60,406</u>

Total depreciation expense – business-type activities **\$ 218,879**

D. Accounts Payable and Accrued Expenses

The composition of accounts payable and accrued expenses is as follows at February 28, 2005:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable	\$ 84,761	\$ 73,021
Accrued expenses	<u>65,528</u>	<u>5,721</u>
Total accounts payables and accrued expenses	<u>\$ 150,289</u>	<u>\$ 78,742</u>

E. Interfund Receivables, Payables and Transfers

The Water and Sewer Enterprise Fund advanced \$258,355 to the General Fund during the year ended February 28, 2003 for the purpose of assisting the Recreation Center Fund in construction of the ice rink facility. The advance is to be repaid over five years with interest charged at 4.28%. At February 28, 2005, the outstanding balance of this advance was \$117,491.

Interfund transfers consisted of the following for the year ended February 28, 2005:

<u>Transfers Out</u>	<u>Transfers In</u>					<u>Total Transfers</u>
	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Ambulance</u>	<u>Internal Service Funds</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ -	\$ -	\$ 40,000	\$ -	\$ 202,194	\$ 242,194
Municipal Street Fund	-	234,850	-	-	95,176	330,026
Restroom Construction	-	-	-	148,000	-	148,000
Water and Sewer Fund	-	-	-	-	16,395	16,395
Nonmajor governmental funds	62,949	-	-	-	3,800	66,749
Internal Service Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,205</u>	<u>2,205</u>
Total Transfers	<u>\$ 62,949</u>	<u>\$ 234,850</u>	<u>\$ 40,000</u>	<u>\$ 148,000</u>	<u>\$ 319,770</u>	<u>\$ 805,569</u>

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Long-term Debt

A summary of long-term debt and transactions related thereto is as follows for the year ended February 28, 2005:

	Balance March 1, 2004	Additions	(Reductions)	Balance February 28, 2005	Due Within 1 Year
Governmental activities					
2004 Capital Improvement Bonds maturing serially through fiscal 2015 in annual payments ranging from \$30,000 to \$40,000 and bearing interest at 3.375%.	\$ -	\$350,000	\$ -	\$ 350,000	\$ 30,000
2002 Capital Improvement Bonds maturing serially through fiscal 2013 in annual payments ranging from \$25,000 to \$35,000 and bearing interest from 2.2% to 4.1%.	275,000	-	(25,000)	250,000	25,000
2000 Special Assessment Limited Tax Bonds maturing serially through fiscal 2010 in annual payments ranging from \$20,000 to \$30,000 and bearing interest from 5.4% to 5.65%.	170,000	-	(30,000)	140,000	30,000

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

	<u>Balance</u> <u>March 1,</u> <u>2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance</u> <u>February 28,</u> <u>2005</u>	<u>Due</u> <u>Within</u> <u>1 Year</u>
1997 Act 99 installment contract maturing in fiscal 2008 in semi-annual payments of \$22,260 including interest at 2.89%.	\$ 141,497	\$ -	\$ (39,717)	\$ 101,780	\$ 41,879
1998 Act 99 installment contract maturing in fiscal 2009 in semi-annual payments of \$16,798 including interest at 2.89%.	149,792	-	(28,325)	121,467	30,303
1997 Special Assessment Limited Tax Bonds maturing serially through fiscal 2007 in annual payments ranging from \$40,000 to \$45,000 and bearing interest from 4.9% to 5.0%.	130,000	-	(45,000)	85,000	45,000
2000 Revenue Bonds maturing serially through fiscal 2011 in annual payments ranging from \$20,000 to \$25,000 and bearing interest from 5.4% to 5.75%.	155,000	-	(20,000)	135,000	20,000
2000 General Obligation Limited Tax Bonds maturing serially through fiscal 2010 in annual payments ranging from \$20,000 to \$25,000 and bearing interest from 5.4% to 5.65%.	135,000	-	(20,000)	115,000	20,000

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

	<u>Balance March 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance February 28, 2005</u>	<u>Due Within 1 Year</u>
1999 Act 99 installment contract maturing in fiscal 2010 in semi-annual payments of \$12,397 including interest at 4.28%.	\$ 120,368	\$ -	\$ (19,853)	\$ 100,515	\$ 20,712
1999 Special Assessment Limited Tax Bonds maturing serially through fiscal 2009 in annual payments ranging from \$18,000 to \$25,000 and bearing interest ranging from 4.1% to 4.4%.	103,000	-	(18,000)	85,000	19,000
Liability for accrued compensated absences	<u>188,654</u>	<u>60,575</u>	<u>-</u>	<u>249,229</u>	<u>-</u>
Total governmental activities long-term debt	<u>1,568,311</u>	<u>410,575</u>	<u>(245,895)</u>	<u>1,732,991</u>	<u>281,894</u>
Business-type activities					
Enterprise Funds					
Water Revenue Bonds maturing serially through fiscal 2020 in annual payments ranging from \$15,000 to \$30,000 and bearing interest at 5%.	320,000	-	(15,000)	305,000	15,000

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

	Balance March 1, 2004	Additions	(Reductions)	Balance February 28, 2005	Due Within 1 Year
1997 Sewer Revenue Refunding Bonds maturing serially through fiscal 2008 in annual payments ranging from \$35,000 to \$50,000 and bearing interest from 4.65% to 4.9%.	\$ 180,000	\$ -	\$ (40,000)	\$ 140,000	\$ 40,000
Total business-type activities long-term debt	<u>500,000</u>	<u>-</u>	<u>(55,000)</u>	<u>445,000</u>	<u>55,000</u>
Total long-term debt	<u>\$2,068,311</u>	<u>\$410,575</u>	<u>\$ (300,895)</u>	<u>\$ 2,177,991</u>	<u>\$336,894</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

Annual debt service requirements to maturity for the above obligations except for the liability for accrued compensated absences is as follows:

	Governmental activities		Business-type activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 281,894	\$ 57,063	\$ 55,000	\$ 21,835
2007	285,891	45,618	65,000	19,225
2008	227,440	33,899	65,000	16,125
2009	221,401	24,441	15,000	13,000
2010	147,136	15,923	15,000	12,250
2011-2015	320,000	25,692	100,000	47,500
2016-2020	<u>-</u>	<u>-</u>	<u>130,000</u>	<u>20,000</u>
	<u>\$ 1,483,762</u>	<u>\$ 202,636</u>	<u>\$ 445,000</u>	<u>\$ 149,935</u>

Total interest expense for the Village for the year was \$94,856.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

G. Restatement - Correction of an Error

During the fiscal year ended February 28, 2005, the beginning fund balance in the General Fund and the beginning net assets in the governmental activities were restated to reflect a \$21,247 correction of a prior period error in recording interest income. This correction does not affect the current year results of operations.

4. OTHER INFORMATION

A. Retirement Plans

Defined Benefit Pension Plan

Plan Description

During the year ended February 28, 2005, the Village established a defined benefit pension plan which provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The police officers at the Village are the only employees eligible to participate in this plan. The Village participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan, 48917 or by calling (800) 767-6377.

Funding Policy

The Village is required to contribute at an actuarially determined rate; the current rate is 9.26% of annual covered payroll. Employees are currently required to contribute 1.6%. The contribution requirements of the Village are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost

For the year ended December 31, 2004, the Village's annual pension cost of \$20,423 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases on 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Village's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 30 years.

Trend Information

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/04	\$ 20,423	100%	\$ -

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Over-funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/04	\$ 256,902	\$ 226,007	\$ (30,895)	113.67%	\$ 175,857	(17.57)%

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

Defined Contribution Pension Plan

Plan Description

The Village provides pension benefits for all of its full-time employees through a defined contribution plan, the Village of Mackinaw City Pension Plan and Trust, which is administered and maintained through a life insurance company. Benefits depend solely on amounts contributed to the Plan, plus investment earnings. Each individual employee has a flexible retirement annuity. Employees are eligible to participate after one year of continuous employment and having attained the age of 19. The contribution to the Plan is made by the Village based upon 10% of employee's base pay, excluding overtime.

Plan provisions and contribution requirements are established and may be amended by the Village Council. Normal retirement age is the employee's 55th birthday or the 10th anniversary of the participation commencement date. Participants are 100% vested upon entry date into the Plan. The Village made the required 10% contribution in the amount of \$87,243 for the plan year ended June 30, 2004.

B. Risk Management and Litigation

The Village is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

VILLAGE OF MACKINAW CITY

DETAIL SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED FEBRUARY 28, 2005

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Taxes				
Current property tax	\$ 1,164,400	\$ 1,064,400	\$ 1,064,576	\$ 176
Property tax administration fees	15,000	15,000	22,400	7,400
Total taxes	1,179,400	1,079,400	1,086,976	7,576
Federal revenues				
DNR Trail grant	68,000	68,000	-	(68,000)
Stone Garden	-	-	36,515	36,515
DEQ grant	58,000	58,000	103,274	45,274
Total federal revenues	126,000	126,000	139,789	13,789
State revenues				
Liquor licenses	8,900	8,900	9,990	1,090
Other state revenue	99,000	99,000	89,945	(9,055)
Total state revenues	107,900	107,900	99,935	(7,965)
Licenses and permits				
Business licenses and permits	3,000	3,000	6,750	3,750
Non-business licenses and permits	6,500	6,500	8,611	2,111
Total licenses and permits	9,500	9,500	15,361	5,861
Contributions				
Other governmental units	13,000	13,000	17,732	4,732
Other	-	-	5,075	5,075
Total contributions	13,000	13,000	22,807	9,807
Charges for services	11,835	11,835	9,923	(1,912)
Fines and forfeits	1,500	1,500	4,310	2,810
Interest earnings	32,200	32,200	4,497	(27,703)
Rents and royalties	116,000	116,000	118,576	2,576
Miscellaneous	2,000	2,000	19,429	17,429
Total revenues	1,599,335	1,499,335	1,521,603	22,268
Other financing sources				
Bond proceeds	210,000	210,000	-	(210,000)
Transfer in	46,000	46,000	62,949	16,949
Total other financing sources	256,000	256,000	62,949	(193,051)
Total revenues and other financing sources	\$ 1,855,335	\$ 1,755,335	\$ 1,584,552	\$ (170,783)

VILLAGE OF MACKINAW CITY

DETAIL SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED FEBRUARY 28, 2005

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Legislative				
Village council	\$ 35,650	\$ 35,650	\$ 29,264	\$ 6,386
General government				
Village manager	90,200	90,200	86,585	3,615
Clerk - elections	3,129	3,129	1,505	1,624
Professional services	26,000	26,000	55,844	(29,844)
Clerk	35,970	35,970	31,726	4,244
Treasurer	36,800	36,800	31,104	5,696
Community development director	68,900	68,900	64,925	3,975
Village hall and grounds	312,750	312,750	130,254	182,496
Village property - other	119,300	127,700	192,010	(64,310)
Promotional	92,750	92,750	84,829	7,921
Total general government	785,799	794,199	678,782	115,417
Public safety				
Police department	389,356	379,356	446,278	(66,922)
Fire department	74,070	120,070	71,061	49,009
Total public safety	463,426	499,426	517,339	(17,913)
Public works - state dock	270	270	2,211	(1,941)
Recreation and culture	191,490	191,490	144,439	47,051
Other functions	9,500	9,500	8,512	988
Debt service	-	-	6,442	(6,442)
Total expenditures	1,486,135	1,530,535	1,386,989	143,546
Other financing uses				
Transfers out	305,400	305,400	242,194	63,206
Total expenditures and other financing uses	\$ 1,791,535	\$ 1,835,935	\$ 1,629,183	\$ 206,752

VILLAGE OF MACKINAW CITY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

FEBRUARY 28, 2005

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total
ASSETS				
Cash and cash equivalents	\$ 119,105	\$ 36,155	\$ 533	\$ 155,793
Investments	81,388	-	364	81,752
Accounts receivable	17,000	-	-	17,000
Taxes receivable	939	-	-	939
Due from other governmental units	3,824	-	-	3,824
Special assessment receivable	-	61,533	-	61,533
Restricted assets	-	23,000	-	23,000
Total assets	\$ 222,256	\$ 120,688	\$ 897	\$ 343,841
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 6,729	\$ -	\$ -	\$ 6,729
Accrued expenses	2,304	-	-	2,304
Deferred revenue	-	61,533	-	61,533
Total liabilities	9,033	61,533	-	70,566
Fund balances				
Reserved				
Recreational facilities	7,972	-	-	7,972
Debt service	-	59,155	-	59,155
Unreserved				
Designated				
Accrued sick and vacation	93,102	-	-	93,102
Undesignated	112,149	-	897	113,046
Total fund balances	213,223	59,155	897	273,275
Total liabilities and fund balances	\$ 222,256	\$ 120,688	\$ 897	\$ 343,841

VILLAGE OF MACKINAW CITY

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED FEBRUARY 28, 2005

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total
Revenues				
Property taxes	\$ 9,531	\$ -	\$ -	\$ 9,531
State revenue	58,324	-	-	58,324
Special assessments	-	13,704	-	13,704
Contributions	50,003	-	-	50,003
Charges for services	56,506	-	-	56,506
Local contribution	-	3,045	-	3,045
Interest	3,889	4,639	11	8,539
Miscellaneous	22,545	-	-	22,545
Total revenues	200,798	21,388	11	222,197
Expenditures				
Current				
General government	36,631	-	-	36,631
Highways and streets	129,578	-	-	129,578
Recreation	109,491	-	-	109,491
Other	8,931	-	-	8,931
Capital outlay	73,825	-	-	73,825
Debt service				
Principal payments	-	170,895	-	170,895
Interest and paying agent fees	-	49,005	-	49,005
Total expenditures	358,456	219,900	-	578,356
Revenues over (under) expenditures	(157,658)	(198,512)	11	(356,159)
Other financing sources (uses)				
Transfers in	125,271	194,499	-	319,770
Transfers out	(66,749)	-	-	(66,749)
Total other financing sources (uses)	58,522	194,499	-	253,021
Net change in fund balances	(99,136)	(4,013)	11	(103,138)
Fund balances, beginning of year	312,359	63,168	886	376,413
Fund balances, end of year	\$ 213,223	\$ 59,155	\$ 897	\$ 273,275

VILLAGE OF MACKINAW CITY
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

FEBRUARY 28, 2005

	Local Streets	Cemetery	Recreation Complex	Recreation Center	Performance Shell
ASSETS					
Cash and cash equivalents	\$ 1,335	\$ 36,561	\$ 2,647	\$ 11,666	\$ 1
Investments	913	24,983	1,808	7,972	-
Accounts receivable	-	-	-	17,000	-
Due from other governmental units	3,824	-	-	-	-
Taxes receivable	-	939	-	-	-
Total assets	\$ 6,072	\$ 62,483	\$ 4,455	\$ 36,638	\$ 1
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 6,557	\$ -
Accrued expenses	1,717	-	518	69	-
Total liabilities	1,717	-	518	6,626	-
Fund balances					
Reserved - recreation facilities	-	-	7,972	-	-
Unreserved					
Designated					
Accrued sick and vacation	-	-	-	-	-
Undesignated (deficit)	4,355	62,483	(4,035)	30,012	1
Total fund balances	4,355	62,483	3,937	30,012	1
Total liabilities and fund balances	\$ 6,072	\$ 62,483	\$ 4,455	\$ 36,638	\$ 1

Planning Commission	Economic Development Commission	State Dock Parking Lot Maintenance	Trail Groomer	Employee Sick and Vacation	Total
\$ 994	\$ 5,470	\$ -	\$ 5,123	\$ 55,308	\$ 119,105
680	3,738	-	3,500	37,794	81,388
-	-	-	-	-	17,000
-	-	-	-	-	3,824
-	-	-	-	-	939
\$ 1,674	\$ 9,208	\$ -	\$ 8,623	\$ 93,102	\$ 222,256
\$ 172	\$ -	\$ -	\$ -	\$ -	\$ 6,729
-	-	-	-	-	2,304
172	-	-	-	-	9,033
-	-	-	-	-	7,972
-	-	-	-	93,102	93,102
1,502	9,208	-	8,623	-	112,149
1,502	9,208	-	8,623	93,102	213,223
\$ 1,674	\$ 9,208	\$ -	\$ 8,623	\$ 93,102	\$ 222,256

VILLAGE OF MACKINAW CITY

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED FEBRUARY 28, 2005

	Local Streets	Cemetery	Recreation Complex	Recreation Center	Performance Shell
Revenues					
Taxes	\$ -	\$ 9,531	\$ -	\$ -	\$ -
State revenue	58,324	-	-	-	-
Contributions from other governmental units	-	-	29,000	19,003	-
Charges for services	-	9,015	2,274	38,730	-
Interest	-	808	9	335	2
Miscellaneous	-	-	-	18,337	-
Total revenues	58,324	19,354	31,283	76,405	2
Expenditures					
Current					
General government	-	36,631	-	-	-
Highways and streets	129,578	-	-	-	-
Recreation	-	-	37,125	66,550	5,089
Other	-	-	-	-	-
Capital outlay	-	9,612	50,035	14,178	-
Total expenditures	129,578	46,243	87,160	80,728	5,089
Revenues over (under) expenditures	(71,254)	(26,889)	(55,877)	(4,323)	(5,087)
Other financing sources (uses)					
Transfers in	74,040	-	47,000	-	4,231
Transfers out	-	-	-	(3,800)	-
Total other financing sources (uses)	74,040	-	47,000	(3,800)	4,231
Net change in fund balances	2,786	(26,889)	(8,877)	(8,123)	(856)
Fund balances, beginning of year	1,569	89,372	12,814	38,135	857
Fund balances, end of year	\$ 4,355	\$ 62,483	\$ 3,937	\$ 30,012	\$ 1

Planning Commission	Economic Development Commission	State Dock Parking Lot Maintenance	Trail Groomer	Employee Sick and Vacation	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,531
-	-	-	-	-	58,324
-	-	-	2,000	-	50,003
3,495	-	-	2,992	-	56,506
45	116	1,261	150	1,163	3,889
-	-	-	4,208	-	22,545
3,540	116	1,261	9,350	1,163	200,798
-	-	-	-	-	36,631
-	-	-	-	-	129,578
-	-	-	727	-	109,491
8,203	728	-	-	-	8,931
-	-	-	-	-	73,825
8,203	728	-	727	-	358,456
(4,663)	(612)	1,261	8,623	1,163	(157,658)
-	-	-	-	-	125,271
-	-	(62,949)	-	-	(66,749)
-	-	(62,949)	-	-	58,522
(4,663)	(612)	(61,688)	8,623	1,163	(99,136)
6,165	9,820	61,688	-	91,939	312,359
\$ 1,502	\$ 9,208	\$ -	\$ 8,623	\$ 93,102	\$ 213,223

VILLAGE OF MACKINAW CITY

COMBINING BALANCE SHEET NONMAJOR DEBT SERVICE FUNDS

FEBRUARY 28, 2005

	1993 Special Assessment Bonds	1998 Act 99 Installment Contract Ice System	2000 General Obligation Bonds	2000 Revenue Bond Recreation Center	1997 Act 99 Installment Contract
ASSETS					
Cash and cash equivalents	\$ -	\$ 2,525	\$ 1,670	\$ 80	\$ -
Special assessments receivable	-	-	-	-	-
Restricted assets	-	-	-	23,000	-
Total assets	\$ -	\$ 2,525	\$ 1,670	\$ 23,080	\$ -
FUND BALANCES					
Liabilities					
Deferred revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Fund balances					
Reserved for debt service	-	2,525	1,670	23,080	-
Total liabilities and fund balances	\$ -	\$ 2,525	\$ 1,670	\$ 23,080	\$ -

1998 Act 99 Installment Contract	1999 Special Assessment Bonds	2002 General Obligation Bonds	2004 General Obligation Bonds	Total
\$ -	\$ 31,838	\$ 42	\$ -	\$ 36,155
-	61,533	-	-	61,533
-	-	-	-	23,000
<u><u>\$ -</u></u>	<u><u>\$ 93,371</u></u>	<u><u>\$ 42</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 120,688</u></u>
\$ -	\$ 61,533	\$ -	\$ -	\$ 61,533
-	31,838	42	-	59,155
<u><u>\$ -</u></u>	<u><u>\$ 93,371</u></u>	<u><u>\$ 42</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 120,688</u></u>

VILLAGE OF MACKINAW CITY

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR DEBT SERVICE FUNDS

FOR THE YEAR ENDED FEBRUARY 28, 2005

	1993 Special Assessment Bonds	1998 Act 99 Installment Contract Ice System	2000 General Obligation Bonds	2000 Revenue Bond Recreation Center	1997 Act 99 Installment Contract
Revenues					
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Local contributions	-	-	-	-	-
Interest	-	10	3	-	-
Total revenues	-	10	3	-	-
Expenditures					
Principal payments	-	28,325	20,000	20,000	39,717
Interest and paying agent fees	-	5,271	6,930	8,145	4,803
Total expenditures	-	33,596	26,930	28,145	44,520
Revenues over (under) expenditures	-	(33,586)	(26,927)	(28,145)	(44,520)
Other financing sources (uses)					
Transfers in	-	33,596	26,930	28,143	44,520
Net change in fund balances	-	10	3	(2)	-
Fund balances, beginning of year	-	2,515	1,667	23,082	-
Fund balances, end of year	\$ -	\$ 2,525	\$ 1,670	\$ 23,080	\$ -

1998 Act 99 Installment Contract	1999 Special Assessment Bonds	2002 General Obligation Bonds	2004 General Obligation Bonds	Total
\$ -	\$ 13,704	\$ -	\$ -	\$ 13,704
-	-	-	3,045	3,045
-	4,626	-	-	4,639
-	18,330	-	3,045	21,388
19,853	18,000	25,000	-	170,895
4,942	4,316	9,348	5,250	49,005
24,795	22,316	34,348	5,250	219,900
(24,795)	(3,986)	(34,348)	(2,205)	(198,512)
24,795	-	34,310	2,205	194,499
-	(3,986)	(38)	-	(4,013)
-	35,824	80	-	63,168
\$ -	\$ 31,838	\$ 42	\$ -	\$ 59,155

VILLAGE OF MACKINAW CITY
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS

FEBRUARY 28, 2005

		Waterfront Development	2002 Capital Projects	Total
	ASSETS			
Cash and cash equivalents		\$ 533	\$ -	\$ 533
Investments		<u>364</u>	<u>-</u>	<u>364</u>
Total assets		<u>\$ 897</u>	<u>\$ -</u>	<u>\$ 897</u>
	FUND BALANCES			
Fund balances - unreserved		<u>\$ 897</u>	<u>\$ -</u>	<u>\$ 897</u>

VILLAGE OF MACKINAW CITY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS**

FOR THE YEAR ENDED FEBRUARY 28, 2005

	Waterfront Development	2002 Capital Projects	Total
Revenues			
Interest	\$ 11	\$ -	\$ 11
Net change in fund balances	11	-	11
Fund balances, beginning of year	886	-	886
Fund balances, end of year	\$ 897	\$ -	\$ 897

VILLAGE OF MACKINAW CITY
COMBINING STATEMENT OF CHANGES IN
ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2005

	Balance March 1, 2004	Additions	Deductions	Balance February 28, 2005
<u>TAX COLLECTION FUND</u>				
ASSETS				
Cash and cash equivalents	\$ 100	\$ 1,459,588	\$ 1,459,527	\$ 161
LIABILITIES				
Due to other funds	\$ 100	\$ 1,345,400	\$ 1,345,500	\$ -
Due to component units	-	34,496	34,496	-
Due to other governmental units	-	79,692	79,531	161
Total liabilities	\$ 100	\$ 1,459,588	\$ 1,459,527	\$ 161
<u>EMPLOYEE FLEX PLAN FUND</u>				
ASSETS				
Cash and cash equivalents	\$ 4,756	\$ 6,000	\$ 6,116	\$ 4,640
LIABILITIES				
Due to employees	\$ 4,756	\$ 6,000	\$ 6,116	\$ 4,640
<u>TOTAL AGENCY FUNDS</u>				
ASSETS				
Cash and cash equivalents	\$ 4,856	\$ 1,465,588	\$ 1,465,643	\$ 4,801
LIABILITIES				
Due to other funds	100	1,345,400	1,345,500	-
Due to component units	-	34,496	34,496	-
Due to other governmental units	-	79,692	79,531	161
Due to employees	4,756	6,000	6,116	4,640
Total liabilities	\$ 4,856	\$ 1,465,588	\$ 1,465,643	\$ 4,801



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

March 18, 2005

Village Council
Village of Mackinaw City
Mackinaw City, Michigan

We have audited the financial statements of the ***Village of Mackinaw City*** (the "Village"), as of and for the year ended February 28, 2005, and have issued our report thereon dated March 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Village in a separate letter dated March 18, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohson". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

March 18, 2005

Village Council
Village of Mackinaw City
Mackinaw City, MI 49701

Through our role in performing financial statement services for the past several years, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the basic financial statements of the ***Village of Mackinaw City*** for the year ended February 28, 2005, we considered the Village's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during the above-mentioned engagement, we became aware of certain informational matters. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated March 18, 2005 on the financial statements of the ***Village of Mackinaw City***.

We have already discussed these other matters with the Village Manager, Village Clerk and Village Treasurer, and we would be pleased to discuss them in further detail at your convenience.

If we can be of assistance in the areas we have discussed or in other areas, we hope you will view us as an integral part of your team.

Thank you for your business.

VILLAGE OF MACKINAW CITY

COMMENTS AND RECOMMENDATIONS

FEBRUARY 28, 2005

Michigan Finance Qualifying Statement

Beginning January 1, 2004, all governmental units subject to the Revised Municipal Finance Act (PA 34 of 2001) must submit a Michigan Finance Qualifying Statement that allows governmental units to pre-qualify for financing during the fiscal year. The Village must submit their qualifying statement electronically using the Michigan Department of Treasury's website. The Village Clerk must contact the Local Audit and Finance Division of the Department of Treasury at (517) 373-0660 to establish a password to access the system and electronically submit their qualifying statement. The qualifying statement is due to the Michigan Department of Treasury by August 31, 2005.

Electronically Filing the Financial Statements

The Village is required to file its audit report with the Michigan Department of Treasury (the "Treasury") by August 31, 2005. The Treasury has issued Numbered Letter 2005-2 which requests (under the authority of Michigan Compiled Law 141.427(1)) that all audits required in accordance with Public Act 2 of 1968 and Public Act 71 of 1919 be submitted electronically to the Treasury in a Portable Document Format (PDF) compatible with Adobe Acrobat. Although this filing process is not mandated at this time, the Treasury is strongly recommending that all governmental units file their year end audit reports including the Auditing Procedures Report (496) and management comment and recommendation letter electronically. We have provided the necessary information, in this electronic format, to the Village Clerk to enable the Village to comply.

Conclusion

Thank you for your business. It has been a pleasure to provide audit services to the ***Village of Mackinaw City***. We appreciate the positive, prompt assistance provided by the Village's personnel. All audit information requests were satisfied promptly. We appreciate your business!